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SELF FUNDING FACT SHEET
Offered by Senator Cliff Larsen
Senate Bill 280

Why Self-Fund?

There are three good reasons to self-fund an employee benefit plan: 1) Lower cost; 2) Greater control; and 3) More flexibility. Fact: more than 65 percent of all U.S. employers have now turned to some form of self-funding.

Traditionally, an employer or plan sponsor pays an insurance carrier to provide benefits and pay claims for its employees. Benefits are confined to that particular carrier's products, giving an employer little flexibility to offer a plan tailored for its own employees. The employer or plan sponsor also has limited ability to control rising insurance premiums. And if there is any profit left over – the difference between premiums paid and claims covered – the insurance company keeps it.

How Self-Funding Works

A self-funded plan takes the money that would have gone to an insurance carrier and invests it instead in a trust fund to finance the cost of its employee/member benefits plan. The amount of money set aside is based on a professionally actuarial calculated risk analysis that helps determine the projected level of claims. The employer or plan sponsor also purchases stop-loss insurance to protect the plan from both an individual catastrophic claim as well as aggregate claims that exceed a pre-designated level. Any money left over in the fund remains there, earning a return to help pay for future claims.

In a self-funded plan, the plan sponsor can decide which benefits to offer and custom design a plan best suited for its employees /members. In addition, self-funded plans are usually able to eliminate many expensive and duplicative state-mandated insurance policy benefits.

The Role of Third-Party Administrators

To manage a self-funded plan, the Plan Sponsor hires a professional third-party administrator. They help prepare the Plan Document, the Summary Plan Descriptions, Administrative Forms and ID Cards. They also help communicate the benefits plan to employees. They manage the entire benefits process, from employee/member enrollment to claims payment. State-of-the-art technology platform integrates paperless claims processing with accounting, group billing and administration, and management reporting.

Along with the most advanced technology, they offer a professional and caring staff that is among the most experienced and well-trained in the industry. This allows innovative solutions to employers and world-class customer service to their employees.

Summary

As healthcare prices skyrocket, businesses and government agencies find it increasingly difficult to maintain their current employee benefit plans. It's reassuring to know that with self-funding, there is an alternative to rising insurance premiums and decreasing health benefits. The trust party administrator works with employers to find a balance between cost control and employee/member satisfaction by designing self-funded benefit plans. Self-funding is a way for employers or plan sponsors to take control of their health benefits while maintaining the sound underwriting principles that are a necessary part of traditional insured plans.